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Biffar Ltd.: Establishing Meritocracy in a Family Business Workplace

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1| CASE

Abstract

The Biffar Ltd. is a family business in Germany, serving a niche market, the luxury segment of house doors and windows, concentrating on burglar resistance and high quality. As they are using a direct sales system to distribute their products, their customers expect high quality products, an outstanding customer service and smooth processes in the buying & manufacturing process. Trends like globalization and digitalization make workplaces around the world more divers, which automatically fosters disparities based on demographical aspects. Within the Biffar Ltd. reward decisions had be precepted as biased and unfair. Bonus payments had been distributed equally, not differentiating between hard working employees and such that had been accused of free riding. Secondly, male employees felt discriminated in reward and promotion decisions by the management by their gender, tracing it back to Mrs. Biffar, being a female CEO and therefore, favoring women. The company took action and implemented a meritocracy in their workplace, trying to eliminate any disparities that could be led back to socio-demographic factors. To establish a meritocracy, certain performance measurements had to be installed and it was important to equip the merit-based performance appraisal system with organizational accountability and transparency. Even though the company has still room for improvement, the positive effects of a meritocracy had been applicable for all its members of the organization.

Keywords: Meritocracy, Family Business, Performance Evaluation, Employee Motivation

NOTES:

The present case is based on two distinctive perspectives of Biffar Ltd.'s establishing process of a meritocracy in their workplace:

- Brigitte Biffar, who is representing the CEO and owner of the family business
- Bruno Huetter, who is representing the chairman of the advisory board

BIFFAR LTD.: ESTABLISHING *MERITOCRACY* AT A FAMILY BUSINESS

WORKPLACE

It was February 2016, Brigitte Biffar had her first workday back at the headquarter after spending a week in Shanghai, China for one of her yearly business trips to Asia. She was excited to be back from an exhausting but satisfying week, as she knew that one of her first meetings back at the headquarter will be human resource management related. During annual meeting the yearly performance analysis of already employed work forces took place and rewards for each employee were fixed. Commonly a meeting, that incorporates a lot of positive energy and excitement, as new employees should be identified and already employed work forces received their bonus, after they had been determined during the assembly. Special about this annual HRM- meeting was, the presence of the chairman of the advisory council, who desperately wanted to attend the meeting for various reasons.

After a long and intense discussion, led by quality feedback and constructive criticism, Brigitte Biffar knew she had to change some crucial processes at her company regarding performance appraisal.

Biffar Ltd.: Company History

The family business has been founded 1960, as a company being specialized on high quality, burglar resistant house doors and windows, with its main office and production being located in Edenkoben, Germany. Already back then the founder Oskar Biffar realized the potential of establishing the brand and its products in a niche market as the market leader in the luxury segment of house doors and windows. This solid base enabled him and the employees to grow continuously, expanding the employees from 30 in the year 1960 to 401 in the year 1996 and raising revenues from 300.000 DM₁ to approximately 30 Million €. As the CEO of the family business, Biffar knew about the importance of motivated and engaged employees as a success

₁ DM = Deutsche Mark, which represents the currency used in Germany before introducing the €

factor to further foster the achieved position in this market. It was a common, an unwritten law, that salary, promotions, bonuses and incentives were determined on the basis of employee's affiliation with the company and employees accepted it. Back then, already 52% of the employees had been with the company for more than 15 years, some employees even 25 years, which has always been interpreted as a sign of dedication and job satisfaction.

However, the situation of the company started to change around 1998. Late 2006, after 8 years of fighting against a crisis the company had to file in insolvency, and it seemed like the end of the business.

Starting from the Bottom

Brigitte Biffar had worked for the family business since 1987. She stepped into the company as the director of marketing, being responsible for ten employees which were under her guidance. As a confessed employee of the company and the later wife of Johannes Biffar she had gone through the good and bad times, and she knew the company and its market from the bottom up. Furthermore, as the company represented the midpoint of the family, guaranteed a certain degree of hedge, and especially because the employees had communicated their willingness to stay with the family business, even relinquishing their salaries during the crisis, Brigitte Biffar decided to rehabilitate the company (2007) and continue it for the family, the employees, and also for her already born children. The rehabilitation included essential changes to the company and especially to its employment structure, which was coming along with hard and tough decisions. Non-viable showrooms, which still were a source of high costs through high fixed costs, had been closed and eliminated, concentrating on the internet presence of the company and the top, lucrative 25 showrooms in Germany and Switzerland. Indeed, the most painful change, was the fact that around 250 employees had to leave the company and could not be part of the new beginning. Due to these changes the company continuously grew and developed fully to Brigitte Biffar's contentment, still serving a niche market as the market.

Feels like the old days

Day to day, the business accelerated, and the atmosphere of recovery and upturn was perceptible throughout the whole company. As most of the products manufactured were still state of the art, in terms of burglar-resistance, isolation, and design, the management knew they rather had to focus on other elementary tasks. These tasks consisted of redefining and rearranging the work responsibilities of all the employees at the office, as more than 50% had to leave the company. Also, it was of utmost importance to improve the internet presence to ensure a seamless coverage of the main market in Germany. In order to avoid a high dependency on the German market, for Biffar it was crucial to expand their exporting activities, mainly to Asia, China. As all these tasks had been successfully tackled, the company was definitely back in calm and stable waters.

By then, the family business grew its yearly revenue to around 20 Mio. €, the product portfolio had steadily improved and several products had been awarded. From 2007 to 2016 the employed number of people for the office, production area and sales had been expanded to around 180 employees. For nine years, the company steadily developed in a positive direction, with a constant order receipt, good running showrooms, qualified and motivated employees, a modern and safe production area, and a rehabilitated brand.

The employee structures

The door manufacturer employed at the end of 2015 around 180 permanent employees. Mrs. Biffar (CEO), Mr. Ross (sales manager) and Mr. Mayer (buying department manager) represented the management, which was accomplished by their management assistant Mrs. Martin. Brigitte Biffar represented the head of the company, being involved and controlling almost all departments. She gave her employees autonomy, but important decisions were not made without her blessing. Mr. Ross was mainly responsible for the sales department, but also

consulted internal and external decisions. Mr. Mayer was the head of the purchase department. The further employee structure had to be split into three main categories.

First, office work forces, which were responsible for administration, accounting/finance, research & development, customer service, marketing, IT, purchasing and export. Secondly, the work forces at the production area, and thirdly, the sales forces with the geographical managers (see Appendix, Table 1). Whereas 90 of the employees were working daily at the headquarter (30 at the office including the management, 60 at the production area), around 90 employees represented the sales team.

Office, Production & Sales

The office team was separated in eight departments. Whereas the marketing, export, customer service, and the general administration shared an open office, all other departments had their own facilities. Execution processes within the company were connected to several departments which forced employees to work collaboratively on several orders and projects.

The production area consisted of three main halls. As the company manufactured customized solutions, automation of most of the production steps was impossible. Therefore, the production area was organized in a shop fabricant style.

The structure of sales forces can be seen in the Appendix, Table 1.

Gender & National origin

From the beginning, the management consistently communicated certain values and gospels along their employees and stakeholders. To respect and not to discriminate based on gender, age, national origin, race, sexual orientation etc. was one of most meaningful laws. Even though the majority of employees had German roots, the company employed around eight nationalities, namely German, Russian, Polish, Turkish, Norwegian, Vietnamese, Swiss, and French.

Gender wise, the company was represented by a clear male domain. Whereas the gender distribution of office employees had a small female dominance, the production department (62

male/3 female) and the sales teams (except the sales assistants; represented by 100% of female employees) were stereotypically occupied by male employees (see Appendix, Graph 1-3).

Managing performance through compensation, rewards & promotion

Biffar Ltd. handled their compensation systems quite simple. Every work force was compensated with a fixed salary, which was equivalent to the usual salary for their profession and job. All job positions had predefined salaries to avoid any payment gaps between genders, only employees who had over averaged education or qualifications, had the chance to receive a higher salary than their colleagues with the same job title.

Every year, around February, when the annual financial statement had been set and the forecast of the next year had been terminated, employees got offered further rewards. Depending on the annual yield of the year before, employees received an equally distributed annual bonus (see Appendix, Table 2). As the yearly revenues had been increasing each year, it was a matter of course to Brigitte Biffar, to endorse the employees on the evolution and the accomplishment. Also, the company arranged free gym membership and a free, healthy lunch for its employees, with the intention to increase health awareness across the departments and to reduce absence due to health-related problems and issues.

Any employee who gained a further qualification, which enabled him/her to cover further purview or duties, additionally was rewarded with a promotion in hierarchy, which also came along with an increase in salary. In terms of promotions, the management generally used a more tenure-based approach. The workforces with the most experience and the longest affiliation had the highest chances to grow. Likewise, promotional decisions were mainly based on the subjective opinion of the management, as there had been only a few mechanisms installed to document quantitative data, e.g. work time registration, overtime recording, or days absent. In fact, Brigitte Biffar realized that especially younger, dedicated employees did not fully approve

this system, but none ever complained. The performance management and appraisal system of sales forces can be found in the Appendix, Text 1.

The meeting: Unequal chances & Dissatisfaction

The big annual HRM meeting started as usual. Brigitte Biffar welcomed all the department managers and scheduled the exact agenda for the important meeting. After analyzing the past year and determining the next steps to further prepare the company by selective placements of new employees, the chairman of the advisory council, Bruno Huetter raised his word bringing up sampled feedback from different employees belonging to different departments, excluding all employees from the sales department. According to him, all employees were very satisfied with the general treatment of the company, but they had to point out some important observations, which they wanted to draw the management attention to, as it effected their daily workday and even more, their motivation. As the voted ambassador, he felt the urgent need to share some opinions of employees that had entrusted him. Already the fact, that some employees wanted to stay anonymous made Brigitte Biffar thoughtful, as she always promoted open communication and always wanted contrivers-thinking employees to speak up, as long as it would be constructive criticism, to promote continuous improvement and a strong working culture.

Distribution of Bonuses

Over time employees expressed an increasing depression about the distribution of bonuses, complaining that the system used would have been comprehensible during the last years as the company rehabilitated, but since the company was maneuvering in more silent waters the employees felt the need to update the distribution system. In specific, the equal distribution of bonuses at the end of each year progressively demotivated a significant percentage. Employees

with the impression of working harder than others, complained about free-riding and “lazier” employees at the company taking advantage of this compensation system. While some employees put hard work into their daily operations, making sacrifices, in order to achieve certain goals, other employees did not - but still received the same bonuses. Especially employees with surpassing workload and success complained that these circumstances rather demotivated them and also destructed the positive atmosphere between each other at the workplace, as it triggered tension. It apparently reached a level of dissatisfaction that even groups started to form, starting to separate the company community.

Female employees are favored?

The second point, Hütter had to bring up, was filled with more explosive nature. Male employees felt discriminated, in comparison to female employees, leading their argumentation back to Brigitte Biffa being a female CEO. Notably, male employees developed the feeling of being deprived when it comes to promotions & rewards. Huetter noted one event, that took place during summer 2015, which accelerated this feeling among male employees strongly. A female marketing employee, which was working closely with Brigitte Biffar, got promoted and received an increase in salary, besides her annual bonus. Meanwhile her precepted equally performing male colleague only received his normal annual bonus without any further rewards and also without any reasoning. Furthermore, some employees have been precepted, by other employees, to take advantage of being “favored” when it came to the request of additional rewards, promotional decisions. Of course, this perception had its negative impact on the organization. Company members where mainly male and therefore, the majority felt affected. Huetter added that after receiving this important feedback he gathered some more voices and opinions from different staff members, and he recognized that the majority of male staff had been adopting to this opinion and kind of internalized it. One employee declared that within the production area employees even started to joke about this condition. And on top of it, even

female employees, certainly those who had not been identified as favorized by the management, hardly suffered as they saw no further enhancement opportunities for themselves in the future.

National origin as a driving force for inequalities

The last point Huetter had on his agenda regarded inequalities through national origin within the company. Even though employees clearly were disappointed with the distribution of rewards and had the reasoned feeling of female employees being prioritized, none of them felt discriminated due to their national origin. However, since the company culture existed of several nationalities, turning the company culture into a multicultural, the management knew they had to obviate discrimination based on origin too, to prevent later dissatisfaction.

Moving on to Action

After Huetter externalized the gathered feedback Brigitte Biffar requested a short break and to continue the meeting after 15 minutes. The feedback and point of view of her employees hit her hard and she needed some fresh air to organize her thoughts and to take a step back from the situation. Indeed, the complete management was insecure about how to react and deal with such a situation, as there had been no similar complaints before, and department leaders could not explain themselves when this serious and harsh dissatisfaction started. Mr. Huetter was asked to further attend the meeting, as he represented the interface between the staff and the management at this moment of time. Then the management took action.

Numbers are facts

The management came to a very important and fruitful conclusion. Fastly, it was agreed that the frustration about the equal distribution of bonuses was comprehensible, but the favoring of female employees was perceived as not solid. Even though they did not share the perception of the employees, it was agreed to unfold the deeper source of this highly important problem. It was important to the management not to „trace” the people that had mentioned the criticism, but instead, to unfold the source of the dissatisfaction and to fight the problem and perception

from there. As the sales forces had not been active factors for the criticism, it was decided to concentrate on production and office employees first.

Mrs. Biffar asked all department managers to chronically plot all compensation decisions (increase in salary, fringe benefits, bonuses, additional holidays, and promotions, etc.) for all employees, that had been made in the past five years. Unfortunately, as the company had no own HRM department, not all of those figures had been documented precisely. Therefore, the data was incomplete, but as the company was rather small, significant changes had been recalled from the memory of the management.

How to continue

After analyzing the data displayed in a table (table is not available) and realizing the named differences, the management agreed on taking action about this complication. First of all, it was decided to record any further compensation changes, of individual employees detailed at the company's databank. This step was crucial for not losing the overview of future compensation decisions and also to be able to react immediately when viewable anomalies occurred. Secondly, even though Mrs. Biffar in the past refused to collect performance measurements of individual employees, it was vital for any further argumentation of compensation determination and gave the management the chance to base their decisions on objective measures instead of only subjective ones. Those measurements included numbers of working hours (remote workers were asked to record their working hours on a trust principle), number of overtime hours, absenteeism rate, number of errors, meeting of deadlines, and budget compliance. Those KPIs enabled the company to objectively compare employees within their departments, across departments, and even across different levels. Also, by the documentation of the data, the management could compare the performance score of one employee over the years, which was very helpful to fairly judge and manage performance appraisal. Department managers were made responsible to record and implement this data by the end of every month (see Appendix,

Table 3). To enhance the performance scores of individual employees, the management set up a 180-degree feedback template concentrating on six metrics which were of special importance for the company. These metrics included values like ambition, attitude, quality of work, improvement from previous evaluations, communication skills and teamwork skills of each employee and were measured by providing each criteria a rank on a scale from one to ten (1 being the worse; 10 being the best). Besides these criteria, the feedback template (see Appendix, Table 4 & 5) incorporated a comment field in which special observations could be documented. For each employee the colleagues from the same department, the department manager, Mrs. Biffar and the employee himself had to fill in the template and judge the performance. While employees only had to rank their associates, Mrs. Biffar and the department managers had to justify their rankings with a short comment. These 180-degree feedbacks had been handed out quarterly and consecutively every employee had a quick but very direct and focused meeting during which the results had been discussed. After being filled out, the documents had been collected and the data was added to the databank.

It was crucial to increase the number of feedback-meetings, in order to provide employees with constant evaluation and also with the possibility to change negatively criticized behavior and/or attitudes in a short time frame, as it had a direct impact on their performance appraisal. Whilst the first two meetings, during which only feedback was given but no compensational rewards had been fixed, wasn't attended by the advisory board, the essential meeting, in which the actual rewards, promotions etc. had been fixed, was attended by the chairman and the vice chairman of the advisory council. Background of this decision was, to have a controlling body who had the authority to modify compensation reward decisions made by the management, in order to intervene when any bias of the management was applicable. This was also important as the performance evaluation and the process outcome were still subject driven to a certain degree.

Only if the complete committee (DM, CEO & the advisory board) rubber-stamped the decision it was official. Mrs. Biffar could not decide only by herself.

After employees had been evaluated, every employee became the opportunity to express his/her request of rewards (choosing or mixing from an annual bonus, additional holidays, salary increase or a promotion). Every employee received an annual bonus (between 2-10% of their annual income) and/or additional holidays, whereas the bonus had to be negotiated between the management and the employee based on the KPIs and performance evaluation. Promotions and salary increases could only be requested by employees showing continuously above average scores in their evaluations over two years.

This process and assessment criteria used to evaluate the employee's performances was communicated to all employees at the headquarter during an assembly that was specially convened for this purpose. Within the meeting it was also voted and agreed on how transparent the complete system should be. 95% of the employees voted, that the performance score, as well as the results of the feedbacks and the actual rewards should all be made transparent to the complete inside of the organization. Therefore, all employees were enabled to have access to the databank and in specific, to each employee's performance evaluation and received rewards. Along the organization everybody agreed that this transparency would lead to the fairest outcomes and it also increased the responsibility of judgements to Mrs. Biffar, the department managers who had been monitored by the advisory board members. As the company employed several nationalities, Mrs. Biffar explicitly pointed out, that this system also increased the chances of disparities due to national origin, gender, race or even sexual orientation.

Recognizing positive results

After the processes and the criteria had been set it took some time for the company to adapt to the new system and also, the management was first wondering if the new system worked out

and all employees would accept the judgement criteria. Today, about two and a half years after the implementation Mrs. Biffar knows that it was a first step in the right direction. Even though the workload for all employees increased by adopting to the merit-based performance appraisal system, employees continuously expressed their happiness and pointed out the high degree of fairness. Thus, the first time the criteria had been used and the first feedback meetings took place, it was a new situation for all the members and the meetings took plenty of time. Also, as employees received direct feedback from their peers for the first time and also from the management, especially underperforming employees needed some time to accept the criticism and to draw the right conclusions from it. Help for this was provided by the management, visioning to the employees how to improve their ratings.

After the first year and the first mature meetings, in which the committee decided with the employee about their compensation rewards, the success of the merit-based performance system got applicable. The management received only good feedback, even from employees who had not receive their requested rewards. All the decisions taken had been let back to the quantitative and qualitative approach of assessing individual's performance, which was perceived as a fair process. This concluded in employees showing a much higher motivation and engagement at work, as they knew it contributed to their daily performance measurement. Brigitte Biffar realized that employees positively competed on the KPIs, as they had been transparent to the complete organization. This increased productivity tremendously as especially big projects had been accomplished in way shorter times. Also, the peer evaluation fostered high collaboration and a very respectful and polite contact between employees. A great side effect was recognized, since **all** employees reduced their days of absenteeism, which was a great accomplishment for the company and favorable to the whole organization and its resources. Next steps involved the further improvement of the system, as the management knew this hard work was only the beginning and there was still plenty of room for improvements.

2| TEACHING NOTE

CASE SYNOPSIS

Biffar Ltd. is a manufacturer of high quality, burglar resistant house doors and windows located in Edenkoben, Rhineland Palatinate, Germany. It is a family business, led in the second generation, which employs around 180 employees. The company is distributing its products mainly in Germany, but also in Switzerland and especially in China. All of those markets are served by Biffar as the market leader in the luxury segment. With 23 showrooms in Germany, two in Switzerland and four in China, the company generates around 20 Million € of annual revenue yearly. As a high-end niche market server, the focus of the company is in delivering its customer products with an incomparable quality, in terms of burglar resistance, functionality, design, and thermal isolation, connected to a continuous and an excellent customer service.

Since Biffar is manufacturing their products and also distributing them using a direct sales system, the employee structure can be split in office-, production-, and sales work forces. Whilst the company rehabilitated from an insolvency (2006) the management mainly used a performance appraisal system, which had no mechanisms to control biases in terms of national origin, gender, race, or sexual orientation. Employees started to complain about the distribution of rewards, feeling unfairly treated by the management, and therefore, Biffar reacted and installed a merit-based performance appraisal system.

OBJECTIVES OF THE CASE

The main objective of this case is to show how a merit-based performance appraisal system can be implemented in a workplace of a German family business, which is aiming to eliminate any disparities and biases deriving from national origin, gender, race, religious believes, or sexual orientation. Several businesses, especially operating in the small firm sector are often not aware that managerial decisions, when it comes to performance rewards, are afflicted with biases and

disparities, even when managers try to make the compensation as fair as possible. The Biffar Ltd. challenged this fact and implemented a process criterion to challenge disparities in their performance appraisal system. The story narrated intends to demonstrate how Biffar Ltd. and its management realized the explicit need of fighting disparities in their reward system, how to evolve with a merit-based reward system, and how the employee's motivation level, productivity and working culture atmosphere got improved.

Nevertheless, it is of importance to bear in mind that family businesses have a different, more relationship-based working culture, in which the management forms closer bonds to its employees and therefore, a certain degree of subjectivity is always involved. The merit-based performance system established needs further improvement and has its limitations. The procedure plotted, should not be seen as the only or best way to implement a meritocracy at a workplace.

TEACHING OBJECTIVES

The teaching objectives focus on teaching fields as human resource management, performance management, compensation management, family businesses, and communication. The case was written under the assumption that merit-based performance appraisal systems in the workplace of German family businesses is not practiced, and with the intent to present it as a valuable tool for managerial operations.

Some topics that can be discussed using the Biffar Ltd. case as a real-life example are:

Meritocracy: describes a merit-based performance appraisal system, which reduces the implication of geographic and physiologic based, like national origin, race, gender, sexual orientation, etc. to a small degree by implementing organizational accountability and organizational accountability into a company's performance appraisal system. Especially family businesses rather use subjective measures instead of objective to evaluate their

employees' performance, seen at the example of the Biffar Ltd. In the case, meritocracy was used to eliminate disparities and to subsequently improve employee motivation & engagement.

Reward Mix: The reward mix is used to manage the performance of employees through different rewards, but most often through a mix of rewards, also called "cafeteria-style".

Different categories are: Cash, indirect compensation, fringe benefits, social rewards, and intrinsic rewards. The reward mix is representing one of the most powerful tools, and most practiced tools when it comes to employee motivation. Therefore, its impact on a company's success is tremendous and crucial for the main goal of every business: long-term profit maximization. As the impact is this significant, the reward mix has to be chosen and distributed in a process that makes it effective and accepted by the employees. As shown in the case, the Biffar Ltd. uses different reward mixes for different job positions to manage performance using compensation. The reward mix has one of the strongest impacts on employees of the Biffar Ltd.

Communication: Communication process are already from essential importance but will become even more important in the times of digitalization and globalization. Higher levels of diversity will raise the importance of communication at every company in the world, in order to collaboratively work at a diverse working culture, as described in the case. Therefore, the Biffar Ltd. promotes an open and respectful communication style. Employees are provided with a communication culture, which empowers them to actively contribute with negative and positive criticism. A trustful communication is based on freedom, respect, empowerment, and reliability, which derives from an appropriate, more demographic leadership style. The Biffar Ltd. has shown how negative feedback had been accepted and used by the management to use it as an opportunity for improvement and to make their company more attractive to employed workforces and job seekers.

Employee motivation/engagement: Only employees which are highly motivated and engaged will perform above average and to their fullest limit, delivering valuable work. It impacts the

atmosphere of the whole company and has a crucial effect on internal and external processes. As mentioned in the case, employees who perceived to be unfairly treated reflected demotivation. Again, managers have the possibility to use different tools which demonstrably increase motivation and engagement of employees. Those tools are namely, compensation systems, performance appraisals, company culture, workplace and collaboration to name a few. Employee motivation comes consecutively with the level of productivity, days of absenteeism, number of errors made by employees, etc. which are pivotal cost and success drivers. The Biffar Ltd. used those factors to successfully trigger employee motivation & engagement.

Performance Measurement: The process of collecting, analyzing and reporting data about the performance of an individual, group, or organization is a fundamental aspect of performance appraisal. Only by using performance measurement individual employees can be differentiated within an organization. At the Biffar Ltd. it represents the base for any merit-based evaluation and likewise shifts performance appraisals from subjective to objective measurements. KPIs used for performance measurements are: total working days a year, annual turnover per employee, absenteeism, overtime hours, profit, cost, EBITDA, etc. Performance measures can be broad or narrower, but both have their immediate impact on the behavior of the employee, as broader measures give more freedom but also free riding.

Equity & Justice: Is determining if the distribution of resources is fair for both, the employer and employee. It measures the distribution of resources, by comparing the inputs/contribution of an employee (time, experience, hard work, etc.) with the received outputs (rewards, recognition, job security, etc.) of the company. In the named example, the ratio of inputs and outputs had been unequally distributed, which lead to dissatisfaction, demotivation and a bad intercourse between employees. The merit-based appraisal system ensured a similar ratio of contributions and benefits along employees, leading to less perceived inequities.

LITERATURE REVIEW

Meritocracy is defined as a social system, or organization in which people hold power or get success because of their performance and abilities, not because of their social status or money (Cambridge Dictionary, n.d.). The British sociologist, Michael Young, first established the term “Meritocracy” in the year 1958 and since then, it has been increasingly accepted and been used as a fair and positive system within organizations. Young described “merit” as a person’s intelligence plus the persons effort, and “meritocracy” as a society/organization in which human beings only socialize with people from similar economic classes and social backgrounds. According to the Talib & Fitzgerald (2015) Young identified “equality of opportunity” and “impartial competition” as the two central features of meritocracy. Without those two central features, a meritocracy will not achieve the desirable society of equalities. Thus, within a meritocracy, fair outcomes can be achieved by a fair and transparent system, reducing potential corruption. Back then, the used term “meritocracy” intentionally incorporated negative connotations and especially Young intended to lampoon the ways societies were ruled (Kim, Choi, 2017). Whereas there is evidence that the concept of meritocracy firstly derived from Asia (Bell, 2012; Zhang, 2015), Sealy (2015) realized that the Western society increasingly see meritocracies as a positive system, due to its opacity in perception with equitable values and capitalism.

Nowadays, “meritocracy” is used in a more enticing and positive way to represent a society, or organization with equal chances to all its members (Lipsey, 2014). Therefore, the idea of meritocracy as a system in which rewards are distributed based on individual effort, talent, and effectiveness has gained the support from people at different levels in society (Newman *et al.*, 2015). Thinking in this direction Lipsey (2014) already mentioned that a meritocracy society should intend to provide equal opportunities to all its members, regardless of a person’s gender, race, national origin, social position or economic class. As the world is undergoing rapid and

significant changes through trends like globalization, digitalization, and repeatedly has to deal with increasing differential political attitudes, inequalities become an even bigger meaning. As meritocracy, firstly was linked to societies, the ideology has also been practiced in private organizations, like businesses. Within private organizations, it is mainly linked to promotions based on individual effort and talent, performance management, and in the decision process of job applicants (Barbosa, 2014). Castilla (2016), is one of the main authors focusing on meritocracy at business organizations. From his studies, it has derived, that when managers believe their company is a meritocracy, they may be more likely to include biases. Castilla names this phenomenon the “Paradox of Meritocracy”. Within his studies, he realized, that companies believing their workplace is representing meritocracy, it actually is not, and men get favored over equally qualified women in the same job having the same supervisors and the same job (larger monetary rewards for men). In one set of experiments, where managers had been told that the organization valued merit, bonuses of +12% (average) had been awarded to men than they awarded equally performing women. Within the experiment it was also proven, that managers who were not explicitly told to base their rewards on a meritocratic system, actually rewarded female employees with higher bonuses than to male employees. A plausible explanation for this phenomenon is, that when managers believe that their company is meritocratic, they become less vigilant about their decisions, leading to unintentionally biased decisions. And when managers do not believe their company is meritocratic, they self-compensate for an assumed bias in the performance evaluation scores, assuming that male employees are favored (pg. 36).

To achieve a meritocracy which is guarding against demographic biases and avoiding the “paradox”, Castilla points out two crucial factors: **organizational accountability & organizational transparency**. To achieve meritocracy, managers, by collecting data on the processes and decisions made concerning key career outcomes (starting salary, merit-based pay,

promotions, etc.), have to assess the general degree of meritocracy at their company. After collecting and properly coding (how it was coded or can be coded had not been described) the information can be analyzed for demographic patterns (all other key employment variables being equal), i.e. the distribution of performance-based bonuses within employees working on the same job, comparing their gender, race, and national origin using bivariate statistics.

The next step is to define a process and criteria. Companies need to determine who is responsible for creating the process and criteria used to evaluate the performance of employees, determining how rewards will be allocated to which employee based on his performance (*process accountability*), and which of these processes and criteria will be applicable to whom in the organization (*process and criteria transparency*) (pg. 39).

Step three determines who within the company is responsible for collecting and analyzing the appropriate data, who will be responsible for ensuring that the decisions made by the management are performance-based (*outcome accountability*), and who in the organization will be empowered to see the outcomes (*outcome transparency*).

The last step determines which person/s within the organization will be responsible for implementing changes in the processes and human resource structure and who is made accountable for the processes and outcomes (audiences' accountability). Furthermore, on the transparency site, the company must decide on the level of transparency, inside and outside of the organization, regarding processes and criteria, outcomes, and audience (pg. 40).

Those four steps will decide on the degree of organizational accountability and transparency. It is open to companies if they assign a single person, a group, or even an external committee to monitor the above described framework (pg.40)

No scientific papers have been found, addressing and examining how to achieve a meritocracy at the workplaces of family businesses in particular. As family business differentiate in the way they are managed, relationships between the management and the employees, in most of the

cases, are tighter and closer, and therefore, the chances of more biased judgements and evaluations are more likely.

CASE ANALYSIS

Introduction: The case analysis presumes that students taught about meritocracy have already been introduced to the concepts of managing performance through compensation, performance appraisal systems, and intrinsic and extrinsic factors affecting employee engagement and motivation. Additionally, it would be advantageous if students know the key differences between family business and corporations, namely the power of the owning family and family managers, differences in cultures (family business are more driven by values and principles set by the owning family), and especially compensation, rewards and promotions are often more based on heritage instead of merits.

Opening questions, asked to the students to introduce the topic of meritocracies could be:

- What do you think is the average pay gap in Europe in 2016 between men and woman and women? (Answer: Appendix, Picture 1)
- Has anyone of you experienced inequalities of performance rewards due to disparities? Can you share the situation with us and explain briefly?
- Does anyone know the concept of meritocracy?

RECOMMENDED QUESTIONS

1. Establishing meritocracy at companies has many benefits. Identify and explain at least five benefits briefly and back up at least three benefits with examples from the case.
2. Using the framework of E. Castilla, describe the meritocratic system used by the Biffar Ltd.

3. What are the main differences between establishing a meritocracy in a workplace of a family business compared to corporations/non-family firms?
4. Design a merit-based performance appraisal system for the sales team of the Biffar Ltd. Use the framework of E. Castilla (Exhibit) as a guideline and briefly reason your decisions.
5. Define three limitations of the meritocratic performance appraisal system used by the Biffar Ltd. What could the company improve about their meritocracy in the future?

More questions, referring to the impact of meritocracy on employee motivation/engagement, performance measurements, recruiting could be asked. Furthermore, using an example of another company practicing a meritocratic workplace could be compared to the Biffar Ltd.

Answering recommended questions: (Note: All answers can be complemented with sentences from the case)

1. Fair Process ⇒ employees recognize equal opportunities (rewards, promotion & selection procedure), disparities due to geographic/demographic biases are minimized and employees feel more valued & being judged fairly. Meritocracy promotes equal ground for all employees! (Case)

Employee Motivation/Engagement ⇒ due to equal chances, employees motivation level as well as the engagement increases tremendously, as they recognize every workday has an impact on their performance score card and consecutively on their performance evaluation and rewards & promotions. Every employee has a fair chance of achieving personal career goals. (Case)

Productivity ⇒ performance measurements are accessible & visible for all employees which triggers a positive competition between employees trying to achieve the highest performance and therefore, they push each other to new levels. (Case)

Communication ⇒ With the freedom to speak up and the right to raise criticism, thoughts, ideas and improvements employees actively contribute and are actively taking part in designing processes & criteria along all organizational levels. Furthermore, direct feedback is obtained from colleagues & the management on communication skills, which triggers employees to communicate respectfully & constructively.

Reduction of Absenteeism ⇒ Absenteeism is reduced as employees compete on these KPIs in order to differentiate from each other. The focus of employees is shifting to performing at their daily workplace in order to receive equivalent rewards. This is also due to employees naturally comparing their KPIs and also competing on them. (Case)

Further benefits which could be named: Improvement of **work culture**, shifting to a **positive organization**, positive **competition** between employees, **leadership style** improvement (through higher level of communication), **management commitment**, **performance evaluation**, **job satisfaction**, **point of differentiation** in recruitment (fight of top talents).

2.

	Organizational Accountability	Organizational Transparency
1) Process & Criteria	<i>Responsible for setting up the process and criteria used:</i> CEO, Department Managers & Head of Advisory Board	<i>Which processes, routines, and criteria are visible and where:</i> All processes & criteria are visible & accessible to all employees by using an online databank
2) Outcomes	<i>Responsible to collect reward data & ensure fairness of payment decisions:</i> Collecting data: Committee (CEO, DM & Head of Advisory Board) Assessing fairness: Head of Advisory Board	<i>Which pay decisions will be visible:</i> All reward decisions are visible to all employees of the company
3) Audiences	<i>Accountability for pay processes and outcomes to whom and who is monitoring the processes & criteria:</i> CEO, DM & Head of Advisory Board → to certain extend also the employees	<i>Determine which pay processes & outcomes are visible and to whom:</i> Inside Organization: All members Outside Organization: Nobody

Additional information that should be considered by students:

1. Measurements: Objective: KPIs (# of working days, absenteeism, overtime, # of errors, etc.); 180-degree feedback; Subjective: Evaluation of management

Transparency: Level of transparency was chosen by employees; using a data bank supports remote monitoring

Transparency: employees chose the level of transparency

2. Head of Advisory is the monitoring organ, which has the power to change reward decisions and is responsible for ensuring fair evaluation and compensation by the management.

3. Employees are allowed to contribute to the monitoring process of the processes & criteria used; transparency within the company is very high, whereas to the outside no information is transmitted. Only exception could be hired person which intends to improve the meritocratic system.

Transparency: employees chose the level of transparency

3. ⇒ Family businesses are owned and managed by families and their members → promotion is based on birth right, not on merits → if family businesses decide for meritocracy promotion of family members is connected to higher risk of displeasure non-family employees.

⇒ Family businesses tend to foster close relationships between the management and its employees → higher risk for relationship driven reward decisions; employees with stronger relationship receives higher rewards → if meritocratic performance appraisal system is used: higher risk of biased performance evaluation

⇒ As family businesses, especially in Germany, are represented by SMEs communication is quick within the organization → mistakes within the processes &

biased decisions are much faster communicated and therefore have a higher effect on the morale of employees

⇒ In family businesses, the managing family members have the power and the last word in the decision process → there will always be the influence of the managing family members in the performance evaluation process & allocated outcomes → family business will always occupy a certain degree of bias (does not have to be geographical or demographical bias, more likely performance based biased)

4. ⇒ Note: There is no right or wrong answer to this question, but answers should be supported by feasible arguments. Things which should be considered:

The answers should incorporate the three key dimensions for **organizational accountability & organizational transparency** → Processes and Criteria; Outcomes; and Audiences

⇒ Performance measurements should be adopted to sales forces daily business → i.e. measuring number of receipts, total accumulated revenue, # of potential new customers acquired, online feedback of customers.

⇒ Customers should be incorporated in the evaluation process (i.e. 360-degree feedback)

⇒ Feedback once in a quartal is enough as purchase decision processes require time, sales forces are not always at the showroom and more flexible in their time management

⇒ The process needs to be digitalized to allow the committee, management and the employee to have access from different geographic locations of Germany. As the management and the advisory board are unable to visit all sales forces personally four times a year, an online solution must be implemented.

5. **Limitations:** ⇒ Data analyzation; the company lacks an employee being in charge of compiling, coding and analyzing both, the data for performance measurements as well

as the data deriving from performance-based reward decisions, to ensure fair payment decisions. Especially in the assessment of performance rewards, statistical tools like multivariate regression models or bivariate statistics can be used to detect demographical patterns.

⇒ The performance evaluation system and the reward decision-making process in the meritocratic system of the Biffar Ltd. is incorporating subjectivisms and “natural” biases and can still be driven by bias as relationships between employees are closer at small companies. The committee, therefore, could still favor certain employees. As the system is highly transparent the limitation will have its impact only to a certain, rather small degree, but family businesses and close relationships are more vulnerable to biases. The meritocracy in itself is still not a 100% fair system.

⇒ Especially promotions are challenging for meritocratic performance appraisal systems in family businesses. The owning family plans, in most occasions, to lead the next generation into the management due to their heritage. However, it contradicts a merit-based system totally, as exactly such factors are tried to be eliminated and replaced by pure performance-based judgements free of disparities.

Improvements: ⇒ Specialize one employee, being responsible for the coding and analyzing of data within the process and criteria, to detect and decrease unfair evaluations and outcomes, which have not been detected by the committee.

⇒ The people acting as the controlling and monitoring organ (in this case the head of advisory board) can be increased and therefore, be rotated for each decision, to avoid biases due to special relationships between the controlling organ and the employees.

⇒ Performance measurements can be further improved to differentiate performance better between employees in the same department. For example, Marketing employees could be measured on the reach of their marketing resources used.

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Biffar Ltd: <https://www.biffar.de/>

Corporate Information provided by the management of the Biffar Ltd.

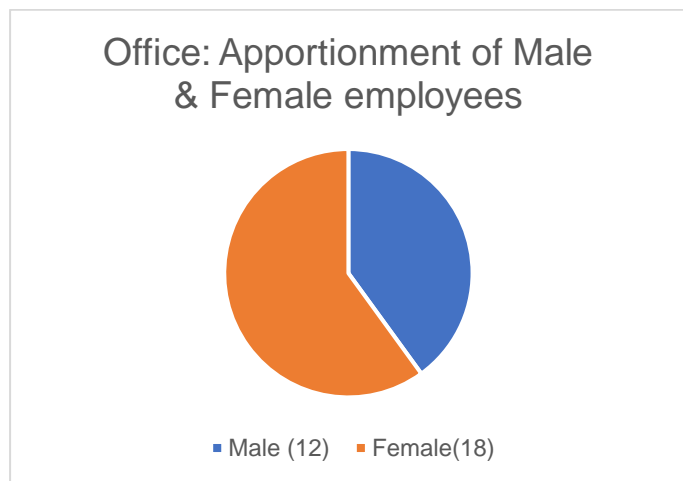
APPENDIX

Employee Structure:

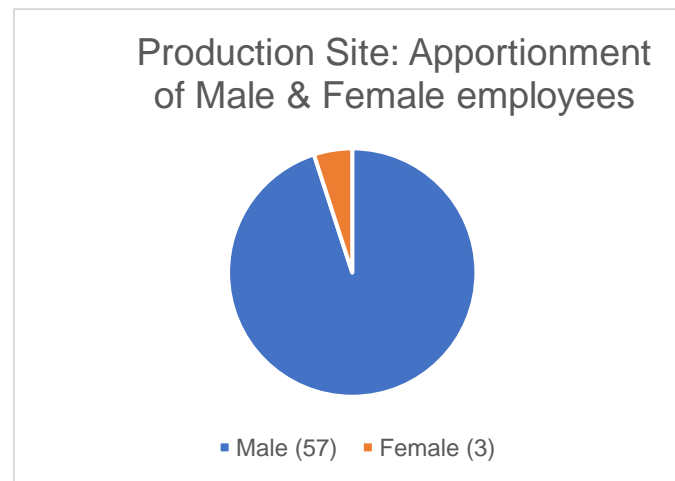
Office:	Trainee:	Full - time Employee:	Department Manager:	Sales Assistant:	Sales Force:	Geographical Manager
General Administration:	1	2	/	/	/	/
IT:	1	1	1	/	/	/
Customer Service:	1	3	1	/	/	/
Marketing:	1	2	/	/	/	/
Research & Development:	1	3	2	/	/	/
Export:		2	/	/	/	/
Purchase:	1	2	1	/	/	/
Accounting/Finance	1	2	1	/	/	/
Production Site:	17	40	3	/	/	/
Sales:						
North:	/	/	/	7	9	6
East:	/	/	/	5	7	3
South:	/	/	/	9	13	7
West:	/	/	/	8	10	6

Table 1: Employment Structure of the Biffar Ltd. (Summer 2016)

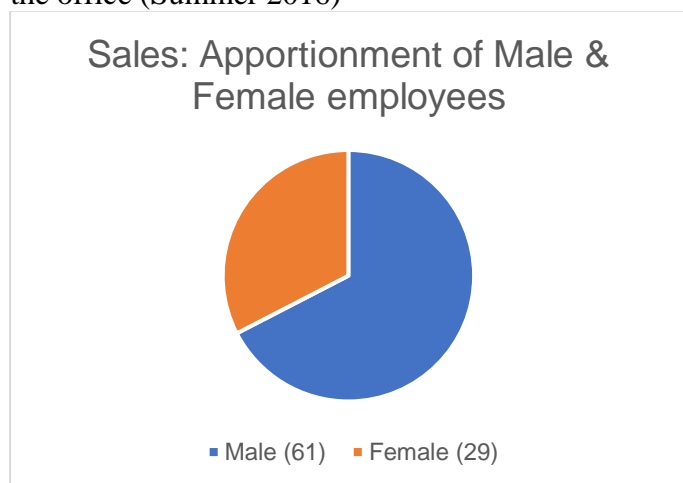
Apportionment of female and male employees:



Graph 1: Apportionment of female and male employees at the office (Summer 2016)



Graph 2: Apportionment of female and male employees at the production site (Summer 2016)



Graph 3: Apportionment of female & male employees in the sales division (Summer 2016)

(Note: Sales Assistants are all female, whereas sales forces & the geographic manager are all represented by males)

Bonus distribution aforesaid the merit-based performance appraisal system:

Year:	2010	2011	2012	2013	2014	2015
Bonus rewarded to each employee (in €):	1.666	1.833	1.889	1.923	1.980	2.112

Table 2: Distribution of bonuses between 2010-2015. Equal distribution and only received by office and production work forces.

Sales Team – Structure, Compensation & Performance appraisal system Information

Structure of Sales forces:

The distribution of sales force employees was dependent on the geographic location of showrooms and also profit- & prospective buyer- related. Every sales team at the showrooms consisted of one regional manager, one sales force, and one assistant. However, very busy and successful showrooms had a second sales force and assistant to warrant an adequate and unbroken customer service, even during rush hours.

Compensation & Rewards of sales forces:

Sales forces, excluding the sales assistants, which included a variable salary, received a low fixed salary and a commission for every product/service sold. Additionally, bonuses were paid for certain target achievements and the geographic manager received an additional bonus when his sales team achieved targets, which had been fixed and communicated before.

As sales forces additionally were also provided with fringe benefits like a company car, a notebook, and a mobile phone, that they could also use for private purposes, they only received further incentives (extra holidays or a raise of fixed salary) after extra-ordinary fruitful years. Sales assistants got equal rewards as the employees working at the office or production area.

Text 1: Explanation of the structure, compensation and performance appraisal system of the sales team of the Biffar Ltd.

Performance Measurement of office & production workforces:

Employee:	Working Days	Overtime (Hours)	Days of Absenteeism	Error Rate	Meeting of Deadlines	Budget compliance	Average 180-degree E	Average 180-degree M
1101	21	15	1	1	Yes	81%	7,8	7,3
1102	22	11	0	0	Yes	123%	7,1	6,5
1103	22	18	0	0	Yes	101%	8	8,3
1105	22	15	0	0	Yes	96%	6,4	6,2
1106	21	10	1	0	No	77%	8,8	8
1107	22	3	0	0	Yes	94%	7,3	7,2
1110	22	27	0	0	Yes	96%	9,1	9,5
1111	17	9	5	2	No	34%	4,1	4
1119	21	16	1	1	Yes	112%	5,8	6,2
1121	22	21	0	0	Yes	93%	7,1	7,1
1122	22	18	0	0	Yes	91%	8,3	8,5

Table 3: Extraction of the performance measurement databank (excel sheet) for the first quartal in 2019

180-degree Template

Assessed employee: # _____

Assessed by: # _____

Criteria:

	Rank: 1 - 10	Comments from M (only Management)
<i>Ambition:</i>		
<i>Attitude:</i>		
<i>Quality of Work:</i>		
<i>Improvement from last feedback:</i>		
<i>Communication:</i>		
<i>Teamwork:</i>		

Rank: 1 = low accomplishment; 10 = high accomplishment

Sum: /60

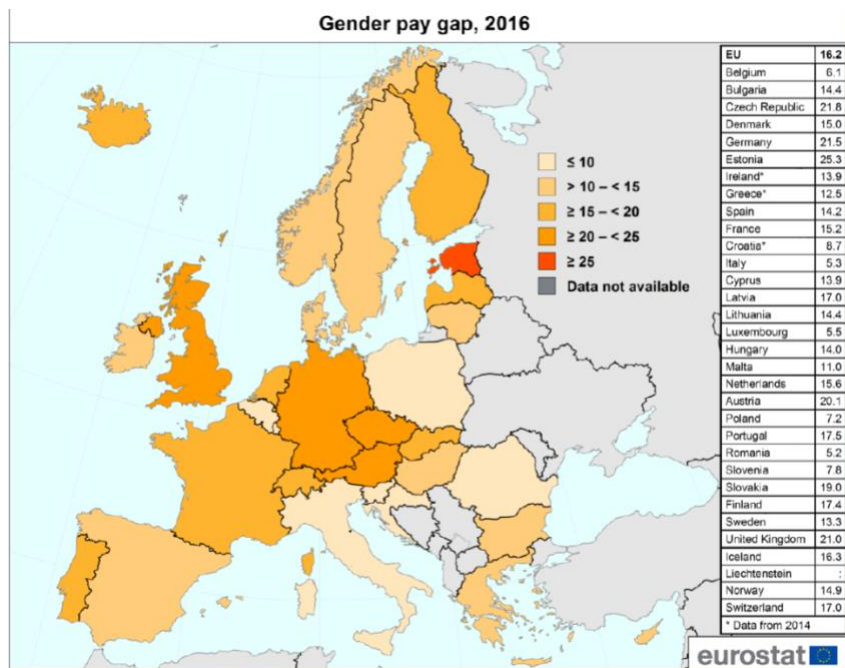
Date: _____

Signature: _____

Table 4: 180-degree Feedback Template used by the Biffar Ltd. for peer evaluation (translated into English)

<i>Ambition:</i>	Employee is always striving to achieve defined goals, by showing hard work, dedication, and persistence. Employee is determined to succeed and highly motivated.
<i>Attitude:</i>	Employee shows an attitude beneficial for the company work culture, a positive mindset and solution-oriented thinking. Being open for new things, positive critical thinking, and envisioning beneficial results are distinguished.
<i>Quality of Work:</i>	Employee emphasizes a high customer orientation during work. Tasks are completed on a high-quality standard, detailed, and well structured.
<i>Improvement from last feedback:</i>	The last feedback was used to further improve criticized behavior. The employee showed action and enhanced a new level.
<i>Communication:</i>	Communication is on a respectful, polite level with confidence. Employee collaborates effectively and listens carefully to other perspectives and ideas. Employee listens carefully to other ideas, speaks out clearly and emphasizes.
<i>Teamwork:</i>	Employee contributes actively to projects, meetings, etc. showing a high commitment while sharing openly and willingly his/her ideas and thoughts. Employee listens and accepts ideas and thoughts of other members without judging, always focusing on a positive outcome.

Table 5: Criteria used for peer evaluation; Explanation of company values (translated into English)



Picture 1: Gender pay gap in Europe, 2016

(Source: <https://ec.europa.eu/eurostat/documents/2995521/8718272/3-07032018-BP-EN.pdf/fb402341-e7fd-42b8-a7cc-4e33587d79aa>)